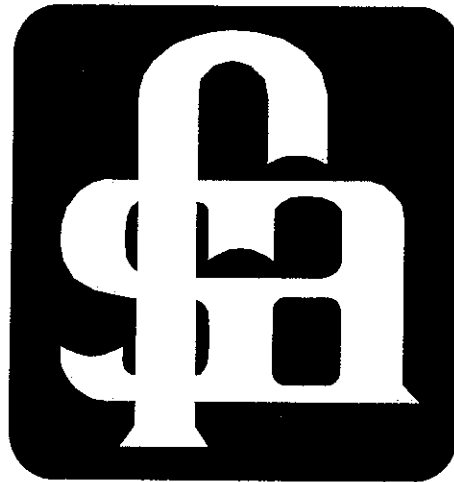


STATE BUDGET UPDATE

**Presented to the
Senate Appropriations Committee**



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January 28, 2009

CONSENSUS ECONOMIC FORECAST

Real GDP

- 1.9% decline forecast for 2009, followed by 1.6% increase in 2010.
- Since the Great Depression, only 1946 and 1982 exhibited larger declines in GDP than the forecast for 2009.
- The expected decline in real GDP of four to six consecutive quarters would be longer than the previous record of three quarters, set in both 1953-54 and 1974-75.

Consumer Confidence

- November reading third lowest in 50+-year history of Index.
- Majority of consumers expect inflation-adjusted income declines in 2009.

Light Vehicle Sales

- 2009 forecast of 10.8 million units would be the worst year since 1982.
- 2009 forecast is down 18.0% from 2008, and down 35.0% from the 2002-2007 average of 16.6 million units.
- In the mid-1990s, the Detroit 3 sold 73.0% of total U.S. light vehicle sales (about 11 million units), compared with 48.0% (about six million units) in 2008.

Retail Sales

- Retail sales fell 11.6% between June 2008 and December, the largest drop since records started in 1947 (the second largest drop was 9.6%).
- The six-consecutive-month decline in retail sales ties the 1953 record for the longest continuous decline.

U.S. Housing Starts

- December housing starts were at their lowest level since records began in 1959.
- December housing starts were down 76.0% from the January 2006 peak, and were down 49.0% since June 2008.

Michigan Housing Activity

- New housing authorizations through November 2008 were down 89.0% from the 2004 level in the Detroit metropolitan area and 81.0% statewide.

U.S. Labor Market

- The economy has lost 2.6 million payroll jobs in the last 12 months, the third largest drop since modern records began in 1939.
- The 1.9 million jobs lost in the last four months ranks as the second largest four-month decline, only 900,000 jobs behind the June-September 1945 decline when the wartime production was halted.
- Payroll employment has declined for 12 consecutive months, the third longest decline since modern records began in 1939.

Michigan Labor Market

- Since peaking in June 2000, payroll employment has declined in 74 of the last 102 months.
- On an annual basis, payroll employment has declined for eight consecutive years -- the longest decline on record, and is expected to continue declining through both 2009 and 2010.

Michigan Labor Market (continued)

- Payroll employment is expected to drop by 4.6% in 2009 and 2.0% in 2010.
- As of December 2008, Michigan had lost 637,000 payroll jobs from the June 2000 peak -- a decline of 14%.
- Michigan's payroll employment has declined for six consecutive months, the third longest decline since before 1990.
- Michigan's payroll employment decline of more than 163,000 in the last six months exceeds the 129,000 jobs lost during the 11- month- consecutive decline during 2001 and accounts for 26.0% of the jobs lost over the last eight years.
- By the fourth quarter of 2010, Michigan payroll employment is expected to be down 779,000 jobs (17.0%) from the peak in the 2000:Q2 and down 197,000 jobs (5.0%) from 2008:Q4.
- Transportation equipment manufacturing employment in Michigan is down 54.0% from its July 2000 peak, a decline of 192,000 jobs.
- Job losses in transportation equipment manufacturing account for 30.0% of total Michigan job losses.
- Michigan transportation equipment manufacturing employment is expected to continue declining in 2009 and 2010, with 2010:Q4 employment down 72.0% (253,000 jobs) from the 2000 level.

Michigan Personal Income

- Michigan personal income is expected to decline 1.3% in 2009 (without adjustment for inflation) and rise only 0.8% in 2010.
- The 1.3% decline in nominal personal income in 2009 would be the first decline since 1958 and the third worst drop since World War II.

CONSENSUS REVENUE ESTIMATES

CONSENSUS REVENUE ESTIMATES

General Fund/General Purpose (GF/GP)

- **FY 2008-09:** Revenue from ongoing sources will total an estimated \$8.3 billion, which is down 11.3% or \$1.0 billion from FY 2007-08.
- **FY 2009-10:** Revenue will decline another 4.5% or \$371.6 million to an estimated \$7.9 billion.
- The major reasons for these declines are the economic recession (which is expected to have a particularly negative impact on income tax revenue) and the new earned income and film credits.

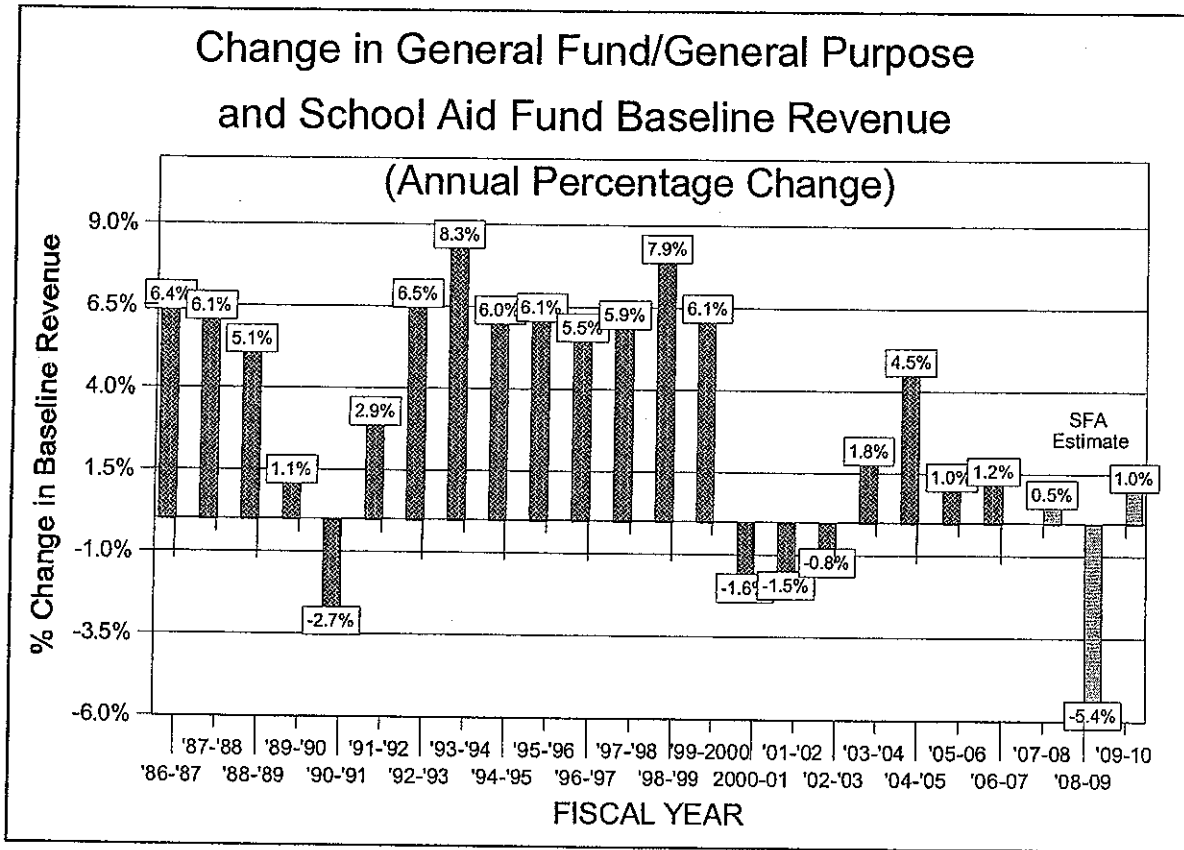
School Aid Fund (SAF)

- **FY 2008-09:** Earmarked tax and lottery revenue will total an estimated \$11.4 billion, which is down 1.3% or \$144 million from FY 2007-08.
- **FY 2009-10:** SAF revenue will decline 0.6%, or \$73.0 million, to an estimated \$11.3 billion.
- The economic recession will reduce sales, use, income, State Education, and real estate transfer tax revenue in FY 2008-09, but much of these declines in revenue will be offset by a statutory increase in the Michigan Business Tax earmark to the SAF.

Earned Income Tax Credit will reduce GF/GP revenue an estimated \$140.0 million in FY 2008-09 and \$315.0 million in FY 2009-10.

Film Credit will result in a net revenue loss of an estimated \$88.0 million in FY 2008-09 and \$131.0 million in FY 2009-10.

Figure 1



YEAR-END BALANCE ESTIMATES

Table 1

Changes in FY 2007-08 Year-End Balance Estimates Final Numbers from June 2008 Estimates (Millions of Dollars)	
General Fund/General Purpose	
Final Year-End Balance	\$457.9
June 2008 Budget Target Estimate.....	<u>139.9</u>
Difference.....	318.0
<u>Components of Change in Balance</u>	
Revenue Increases	195.8
Higher Year-End Appropriation Lapses	122.2
School Aid Fund	
Final Year-End Balance	\$247.1
June 2008 Budget Target Estimate.....	<u>68.6</u>
Difference.....	178.5
<u>Components of Change in Balance</u>	
Revenue Increases	138.2
Higher Year-End Appropriation Lapses	40.3

Table 2
FY 2008-09
General Fund/General Purpose
Revenue, Expenditures, and Year-End Balance
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance.....	\$ 457.9
Ongoing Revenue:	
Consensus Revenue Estimate	8,306.1
Revenue Sharing Freeze.....	550.3
Revenue Sharing Increase (2.0%).....	(8.1)
Revenue Sharing Hold Harmless Payments	(5.0)
Shift of Short-Term Borrowing Costs to School Aid Fund	45.0
Subtotal Ongoing Revenue	8,888.3
One-Time Revenue:	
Treasury-Insurance Escheats Revenue	25.0
Treasury-Secondary Collections.....	6.0
21st Century Fund Transfer to General Fund.....	10.0
Tourism Borrowing Transfer to General Fund	10.0
TEDF Transfer to General Fund	6.0
Subtotal One-Time Revenue	57.0
Total Estimated Revenue.....	\$9,403.2
Expenditures:	
Initial Appropriations	\$9,701.4
Pending Supplemental Appropriations:	
Records Center Lease Funding (OSB Request, 8-18-08).....	0.4
Executive Order 2008-21.....	(134.0)
Lapse from Contract Savings	(20.0)
Total Projected Expenditures.....	\$9,547.8
Projected Year-End Balance.....	\$ (144.6)

Table 3
FY 2008-09
School Aid Fund
Revenue, Expenditures, and Year-End Balance
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance.....	\$ 247.1
Consensus Revenue Estimate	11,368.7
GF/GP Grant.....	40.8
Federal Aid	1,562.0
Total Estimated Revenue.....	\$13,218.6
Expenditures:	
Initial Appropriations	\$13,378.9
Projected Formula Funding Lapse	(122.0)
Total Projected Expenditures.....	\$13,256.9
Projected Year-End Balance.....	\$ (38.3)

Table 4
FY 2009-10
General Fund/General Purpose
Budget Outlook
(Millions of Dollars)

	SFA Estimate
Potential Revenue:	
Beginning Balance.....	\$ (144.6)
FY 2009-10 Consensus Revenue Estimate	7,934.5
Revenue Sharing Freeze.....	470.2
Shift of Short-Term Borrowing Costs to School Aid Fund.....	45.0
Total Estimated Revenue.....	\$8,305.1
Potential Expenditures:	
Freeze in Appropriations at FY 2008-09 Levels	\$9,547.8
<u>Statutory Appropriation Adjustments:</u>	
Medicaid Federal Match Rate Savings	(260.0)
Medicaid Caseload, Cost and Utilization Adjustments	150.0
Michigan Promise Grant Cost Increase	60.0
Tobacco Securitization Debt Service Cost Increase	39.0
State Employee Economics	60.0
Other Debt Service Increases	40.0
Subtotal Statutory Appropriation Increases	89.4
Total Potential Expenditures	\$9,636.8
Imbalance Revenue Less Expenditures	\$(1,331.7)

Table 5
FY 2009-10
School Aid Fund
Budget Outlook
(Millions of Dollars)

	SFA Estimate
Potential Revenue:	
Beginning Balance.....	\$ (38.3)
FY 2009-10 Consensus Revenue Estimate	11,295.8
GF/GP Grant.....	40.8
Federal Aid	1,562.0
Total Estimated Revenue.....	\$12,860.3
Potential Expenditures:	
Freeze in Appropriations at Projected FY 2008-09 Expenditure Level	\$13,256.9
Projected FY 2009-10 Reduction in Formula Funding Costs	(150.0)
Total Potential Expenditures	\$13,106.9
Imbalance Revenue Less Expenditures	\$ (246.6)

Table 6
FY 2009-10 and FY 2010-11
State Budget Outlook
(Millions of Dollars)

	SFA Estimate
FY 2009-10 General Fund/General Purpose Outlook	
Projected Revenue Under Current Law	\$8,305.1
Projected Appropriations (Spending Freeze)	<u>9,636.8</u>
Projected Imbalance	\$(1,331.7)
Assume Federal Stimulus Funding Covers Imbalance	\$1,331.7
FY 2010-11 General Fund/General Purpose Outlook	
Projected Revenues Assuming 3.0% Growth	\$8,704.0
Freeze Appropriations at FY 2009-10 Levels	<u>9,636.8</u>
Projected Imbalance	\$(932.8)
FY 2009-10 School Aid Fund Outlook	
Projected Revenue Under Current Law	\$12,860.3
Projected Appropriations (Spending Freeze)	<u>13,106.9</u>
Projected Imbalance	\$(246.6)
Assume Federal Stimulus Funding Covers Imbalance	\$246.6
FY 2010-11 School Aid Fund Outlook	
Projected Revenue Assuming 3.0% Growth	\$13,207.0
Projected Appropriations (Spending Freeze)	<u>13,006.9</u>
Projected Balance	\$200.1

FEDERAL STIMULUS PACKAGE

Table 7

American Recovery and Investment Act of 2009 Summary of Major Spending and Revenue Provisions (Billions of Dollars)	
Major Spending Components:	
State Fiscal Stabilization Fund.....	\$79.0
Enhanced Federal Medicaid Match Rate	87.0
State and Local Education Operational Funding.....	26.6
Infrastructure Grants	110.0
Programs to Assist the Unemployed	102.0
Energy-Related Programs.....	54.0
All Other Areas of Spending.....	91.4
Total Spending Components.....	\$550.0
Tax Revenue Components:	
Individual Tax Relief.....	\$185.0
Business Tax Relief	90.0
Total Revenue Components	\$275.0
Total Federal Stimulus.....	\$825.0

Source: Senate Fiscal Agency analysis of U.S. House of Representatives proposal as of January 26, 2009.

Table 8

**Proposed Federal Stimulus Plan – Tax Reductions
(Billions of Dollars)**

	Federal Impact FY 2009 – FY 2019
Individuals	
Income tax credit equal to 6.2% of earned income up to \$500 for single filers and \$1,000 for joint filers. This credit would be phased out for taxpayers with AGI in excess of \$75,000 for single filers and \$150,000 for joint filers and the credit would be granted for 2009 and 2010 tax years.	\$(145.3)
Earned income tax credit would be increased in 2009 and 2010 for families with three or more children and married couples,	(4.7)
Child credit would be expanded in 2009 and 2010 by making more taxpayers eligible for the refundable portion of the credit.	(18.3)
Hope credit for undergraduate tuition payments would be renamed the American Opportunity Tax Credit and increased in 2009 and 2010. In addition the credit would become partially refundable and the income threshold for phasing out the credit would be increased.	(13.8)
First-time home buyer credit would be increased by eliminating the current requirement that the credit be repaid over the 15 years subsequent to receiving the credit for first-time home buyers who purchase a home between January 1, 2009, and June 30, 2009.	(2.5)
Subtotal	\$(184.6)
Businesses	
Bonus depreciation and the increase in the expensing deduction for certain depreciable assets allowed in 2008 would be extended through 2009.	\$(5.1)
Net operating loss carry-back period would be expanded from two years to five years for 2008 and 2009.	(15.0)
Work opportunity tax credit would be expanded to include unemployed veterans and disconnected youth hired in 2009 and 2010.	(0.2)
Subtotal	\$ (20.3)
State & Local Governments Bonds: Various proposed changes would enhance and expand existing State and local government bond programs and create new tax exempt bond programs including a new school construction bond program.	\$ (50.7)
Energy Incentives: Various energy-related tax credits and bond programs would be expanded or created including extending the renewable electricity credit and expanding the New Clean Renewable Energy Bond program.	\$ (19.4)
Total	\$(275.0)

Source: Joint Tax Committee of the United States Congress

Table 9

**American Recovery and Reinvestment Act of 2009
State of Michigan Share by Fiscal Year
(Millions of Dollars)**

	FY 2008-09	FY 2009-10
Items with Direct State Budget Impact		
<u>State Fiscal Stabilization Fund Components:</u>		
K-12 Funding Distributed Under Federal At-Risk Formulas.....	\$646.2	\$646.2
State Share of Education Incentive Grants (Per-Capita Assumption)	245.3	245.3
General Fiscal Relief to State Budgets.....	413.1	413.1
<u>State Education Components:</u>		
Title I At-Risk Funding	246.5	246.5
Special Education Funding	228.4	228.4
Impact Federal Aid.....	0.4	0.0
School Improvement Programs	19.0	19.0
Innovation and Improvements	1.0	0.0
Rehabilitation Services	8.5	8.5
Homeless Children and Youth.....	1.2	1.2
Math/Science Partnerships.....	1.2	0.0
Teacher Quality Enhancement	3.8	0.0
<u>Other Components with Direct State Budget Impact:</u>		
Enhanced Medicaid Match Rate.....	431.0	480.0
Medicaid High Unemployment Provision.....	473.0	545.0
Temporary Assistance for Needy Families Emergency Grants	57.5	57.5
Edward Byrne Criminal Justice Grants.....	65.0	0.0
Subtotal Direct State Budget Impact.....	\$2,841.1	\$2,890.7
<u>Major Infrastructure Funding</u>		
K-12 Education	\$533.0	0.0
Higher Education	215.4	0.0
Highway Infrastructure Investment (State Funding).....	653.6	0.0
Highway Infrastructure Investment (Local Funding).....	221.5	0.0
Transit Capital Assistance Grants	122.3	0.0
Clean Water Projects	261.3	0.0
Drinking Water Projects	69.2	0.0
Weatherization Projects	347.0	0.0
Subtotal Major Infrastructure Funding	\$2,423.3	0.0
<u>Other Major Programs to State and Local Governments</u>		
Community-Oriented Police Grants	\$32.7	\$0.0
State Energy Program.....	120.6	0.0
Child Care Development Block Grant.....	28.5	28.5
Community Services Block Grant	18.9	18.9
Low-Income Energy Assistance Program.....	0.0	48.2
Subtotal Other Major Programs to State and Local Governments.....	\$200.7	\$95.6
Total Funding Impacting State and Local Government.....	\$5,465.1	\$2,986.3

Source: Senate Fiscal Agency estimates

Summary of Major Components with Direct Michigan State Budget Impact

State Fiscal Stabilization Fund: The stimulus package includes the appropriation of \$79.0 billion for a State Fiscal Stabilization Fund. This funding is equally divided over FY 2008-09 and FY 2009-10. The bulk of the funding is distributed to states under three separate provisions. The first is a total of \$15.0 billion, to be distributed to states for education incentive grants. These grants will be distributed by the United States Secretary of Education based on the state's progress in three areas of K-12 education. These areas are: 1) equitable distribution of quality teachers between high- and low-poverty school districts, 2) the state's collection of and use of education data, and 3) the use of assessments to collect data on students' educational progress. The remaining State Fiscal Stabilization Fund is distributed to states for two remaining programs. A total of 61.0% of the remaining funds are earmarked for K-12 school aid, community colleges, and university spending. Based on provisions in the Federal bill, in Michigan these funds will be distributed to K-12 school districts based on Federal at-risk funding formulas, though schools would not have to use these stabilization fund dollars for at-risk purposes. A total of 39.0% of the remaining funds are discretionary funds for states that can be used for any budget purpose. The Senate Fiscal Agency (SFA) is estimating that the State of Michigan will receive a total of \$2.6 billion of State Fiscal Stabilization Funds during FY 2008-09 and FY 2009-10.

Enhanced Medicaid Match Rate: The stimulus package includes the appropriation of \$87.0 billion for enhanced Medicaid match rates for states. This funding is divided over FY 2008-09 and FY 2009-10 and will continue into the first quarter of FY 2010-11. The Medicaid funding is distributed to states using three separate criteria. The first is to ensure that no states have a reduction in their Federal Medicaid match rate during FY 2008-09 and FY 2009-10. The State of Michigan does not benefit from this provision. The second is an increase in the state's Federal Medicaid match rate of 4.9 percentage points. The third is additional Federal Medicaid match rate funding based on changes in the state's unemployment rate from the beginning of calendar year 2006. The larger the state's increase in the unemployment rate, the larger the funding under this provision. The SFA is estimating that the State of Michigan will receive a total of \$1.9 billion of enhanced Medicaid funding during FY 2008-09 and FY 2009-10. Under provisions of the Federal proposal, the State of Michigan will receive an estimated \$262.0 million of enhanced Medicaid funding during FY 2010-11.

Summary of Major Components of K-12 Education Funding

Education for the Disadvantaged: The stimulus package includes the appropriation of \$13.0 billion over two years to carry out Title I of the Elementary and Secondary Education Act of 1965 (ESEA). This funding is equally divided over FY 2008-09 and FY 2009-10. Of the total, \$5.5 billion is available for targeted Title I grants, another \$5.5 billion is available for education finance incentive grants, and the remaining \$2.0 billion is for school improvement grants. Both the targeted and the education finance incentive grants are formula-driven grants, as prescribed by formulas in Federal law, using poverty measures as the basis for the formulas. The school improvement grant piece focuses the dollars on Title I schools not making Adequate Yearly Progress for multiple years. The Senate Fiscal Agency (SFA) is estimating that the State of Michigan will receive a total of \$493.0 million of Title I Funds during FY 2008-09 and FY 2009-10, and these funds will be restricted to the purposes set out in Federal law for Title I grants.

Special Education: The stimulus package includes the appropriation of \$13.6 billion over two years to carry out Section 611 and Part C of the Individuals with Disabilities Education Act (IDEA). This funding is equally divided over FY 2008-09 and FY 2009-10. Of the total, \$13.0 billion is available for Section 611, which provides formula grants to assist states in meeting the excess costs of providing special education and related services to children with disabilities, and the remaining \$600.0 million is for Part C, which provides formula grants to states to assist them in implementing systems and making early intervention services available to children ages birth through two with disabilities. The SFA is estimating that the State of Michigan will receive a total of \$456.8 million of Special Education funds during FY 2008-09 and FY 2009-10, and these funds will be restricted to the purposes set out in Federal law for the specified parts of IDEA.

Other Grants: The stimulus package includes the appropriation of supplemental funding for several other grants, some over two years, others only for one year. School Improvement Programs (primarily Education Technology funding at \$1.0 billion, and funds for educating homeless children at \$66.0 million) are appropriated over two years, Rehabilitation and Disability Research is funded at \$500.0 million over two years, the Teacher Incentive Fund is funded at \$200.0 million for one year, Improving Teacher Quality is funded at \$100.0 million for one year, Math and Science Centers are funded at \$40.0 million for one year, and other smaller grants are funded. The SFA is estimating that the State of Michigan will receive a total of \$35.1 million in FY 2008-09, and \$28.7 million in FY 2009-10 from these other grants. Recipients of the grants must use the funds as prescribed in Federal law for these programs.

Summary of Major Infrastructure Spending to Benefit Michigan

K-12 Education Infrastructure: The stimulus package includes the appropriation of \$14.0 billion for K-12 infrastructure projects. The funding is distributed to states based on the number of Federally defined at-risk students in each state. Each state then is required to distribute these funds to individual school districts based on the proportion of at-risk students. Local school districts will have to spend these funds for building repairs, renovations or energy conservation measures. The funding cannot be spent on the construction of new buildings. The SFA is estimating that the State of Michigan will receive a total of \$533.0 million of these funds during FY 2008-09.

Higher Education Infrastructure: The stimulus package includes the appropriation of \$6.0 billion for higher education infrastructure projects. The funding is distributed to states based on the number of full-time equivalent undergraduate students attending institutions of higher education in each state. The State of Michigan then will have to determine the distribution of these infrastructure funds to the community colleges and public universities in Michigan. The SFA is estimating that the State of Michigan will receive a total of \$215.4 million of these funds during FY 2008-09.

Highway Infrastructure: The stimulus package includes the appropriation of \$30.0 billion for highway construction projects. The funding is distributed to states based on existing Federal highway distribution formulas. The State of Michigan then will have to determine which projects receive funding. The SFA is estimating that the State of Michigan will receive a total of \$875.2 million of these funds during FY 2008-09. Of this amount, the State will pass along \$221.5 million of additional Federal funding for local highway and road construction projects.

Transit Capital Assistance Grants: The stimulus package includes the appropriation of \$6.0 billion for transit capital assistance grants. The funding is distributed to states based on the existing Federal distribution formulas. The State of Michigan then will allocate the funds local transit agencies based on Federal requirements. The SFA is estimating that the State of Michigan will receive a total of \$122.3 million of these funds during FY 2008-09.

Clean Water State Revolving Fund: The stimulus package includes the appropriation of \$6.0 billion for Clean Water State Revolving Funds. The funding is distributed to states based on existing Federal funding formulas. The State of Michigan then will use these funds to provide loans or grants for water projects to local units of government. The SFA is estimating that the State of Michigan will receive a total of \$261.3 million of these funds during FY 2008-09.

Drinking Water Projects: The stimulus package includes the appropriation of \$2.0 billion for drinking water projects. The funding is distributed to states based on existing Federal funding formulas. The State of Michigan then will use these funds to provide loans or grants to local units of government. The SFA is estimating that the State of Michigan will receive a total of \$69.2 million of these funds during FY 2008-09.

Weatherization Funding: The stimulus package includes the appropriation of \$6.2 billion for the weatherization assistance for low-income homeowners. The funding will be distributed to states based on existing Federal funding formulas. The State of Michigan then will use these funds to increase existing weatherization programs. The SFA is estimating that the State of Michigan will receive \$347.0 million of these funds during FY 2008-09.

Other Major Spending Components

Reliable, Efficient Electricity Grid: \$11.0 billion to modernize the Nation's electrical grid.

Local Government Energy Efficiency Block Grants: \$6.9 billion to help state and local governments make investments to make them more energy efficient.

Advanced Battery Loans and Grants: \$2.0 billion to support United States' manufacturers develop advanced batteries for vehicles.

Wireless and Broadband Grants: \$6.0 billion for broadband grants to underserved areas.

Airport Improvement Grants: \$3.0 billion for airport improvement grants that will increase safety and reduce congestion.

Pell Grants: \$15.6 billion to increase the maximum Pell Grant by \$500, from \$4,850 to \$5,350.

Head Start: \$2.1 billion to provide comprehensive development services to help 110,000 additional children succeed in school.

Job Training: \$4.0 billion for increased training for displaced workers, including \$1.2 billion for create one million summer jobs for youth.

Health Care for the Unemployed: \$30.3 billion to extend health care coverage to the unemployed by extending the period of COBRA coverage for older and tenured workers beyond the 18 months currently in law and provide subsidies for the coverage for the first 12 months of unemployment.

Neighborhood Stabilization: \$4.2 billion to help communities purchase and rehabilitate foreclosed or vacant properties.

Food Stamps: \$20.0 billion to increase the income levels of families or individuals eligible to receive food stamps.

Unemployment Benefits: \$39.0 billion to continue the temporary 33-week extension of unemployment benefits and increase the level of benefits paid by \$25 per week.

Medicaid Expansion: \$8.6 billion to provide 100% Federal funding for Medicaid coverage to individuals unemployed with income of less than 200% of the poverty level.

Potential One-Time Uses of Excess Federal Stimulus Funding

Provide Funding for Municipalities: The State could use some of the Federal stimulus revenue to provide grants to cities, villages, townships, or counties to assist these local units in balancing their budgets.

Establish State Budget Reserves: The State could use some of the State GF/GP and SAF appropriations that could be freed up with the additional Federal stimulus funds to increase the balances in the Budget Stabilization Fund, the Medicaid Benefits Trust Fund, or the School Aid Stabilization Fund.

Pay Down Outstanding State Debt. The State of Michigan currently has approximately \$1.5 billion of General Obligation bonds, \$3.1 billion of State Building Authority bonds, \$2.9 billion of transportation-related bonds, and \$1.1 billion of Tobacco Finance Authority bonds outstanding. Paying down a portion of these debt obligations will result in reduced debt service appropriations in future years.

Increase Funding of the State's Major Retirement Systems to a Full Level of Pension Obligation Funding. At the close of FY 2006-07, the State Employees Retirement System had an unfunded liability of \$1.8 billion and the Public School Employees Retirement System had an unfunded liability of \$5.8 billion. Paying down a portion of these unfunded liabilities will result in reduced pension contribution rates in future years.

Purchase Private Buildings that the State of Michigan is Currently Leasing with a Purchase Option Included in the Lease. An example is the new Department of State Police Headquarters, \$45.0 million. Purchasing these private buildings would reduce future departmental operating costs.

Begin Funding Post Employment Retirement Benefits under the State's Major Retirement Systems. Governmental accounting standards require the pre-funding of retirement benefits, including health care benefits. The State Employees Retirement System obligation for post-employment benefits is underfunded by \$13.0 billion and the Public School Employees Retirement System obligation for post-employment benefits is underfunded by \$25.0 billion. These unfunded obligations will have to be met by the State in the future.

Endow Financial Aid Programs for University and Community College Students. Recently approved legislation created Michigan Promise Zones. These zones are contingent upon local school districts raising private funds to endow scholarships. One-time Federal stimulus money could partially fund the Michigan Promise Zones.